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C O N F I D E N T I A L SECTION 01 OF 03 TEGUCIGALPA 001873

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SUBJECT: HONDURAS: GOH ROLLS BACK PRICES; CARDINAL, IMF
CALL FOR REASON AND ECONOMIC RESTRAINT

REF: A. TEGUCIGALPA 1742

- [1](#)B. TEGUCIGALPA 1831
- [1](#)C. TEGUCIGALPA 1842
- [1](#)D. TEGUCIGALPA 1837
- [1](#)E. TEGUCIGALPA 1720

Classified By: Classified by EconCheif PDunn for reasons 1.5 (B and D)

[1](#)1. (C) Summary: In a session lasting until four a.m. September 8, the National Congress passed three decrees that seek to alleviate the impact of higher fuel prices on Honduran workers. One rolls back gasoline prices and calls for a commission to establish a new gasoline pricing formula; the second halts a proposed expansion of electricity subsidies to the poor and instead uses the funds to subsidize gasoline sales; and the third imposes a price freeze on certain food commodities. President Maduro's proposed 1,000 to 2,000 lempira (USD 53-106) salary bonus was rejected and is now "dead," but a price freeze on basic consumer goods has been imposed. Catholic Church Cardinal Oscar Rodriguez has publicly called for reasonable policy choices that do not endanger the economic health or benefits of recent debt forgiveness. The IMF is privately calling for similar prudence, but is withholding judgment on the new decrees until it has had an opportunity to review them. The fiscal and economic impacts of the measures are as yet unknown, but the political impact was immediate, as striking taxi drivers have returned to work and relative calm has returned to Tegucigalpa. See septel for reporting on the political aspects of this issue. End Summary.

GOH Lowers Prices, Raises Subsidies; Fiscal Impact Unknown

[1](#)2. (U) In late-night action, the Honduran Congress passed three decrees that seek to alleviate the impact of higher fuel prices on Honduran workers. The first decree rolls back retail gasoline prices to pre September 2 levels, removing the remainder of the sharp 17 lempira (nearly one USD) per gallon increase. The plan will reportedly be financed by diverting some of the funds that had been previously programmed to increase electricity subsidies to the poor. This might be sufficient in the short term to meet Minister of Finance William Chong Wong's requirement that any new spending be financed by identified revenues or offsetting spending cuts. (Note: The Minister, currently in Spain, has thus far been very hawkish in curbing similar Congressional handouts in the past. Acting Minister Ralph Oberholzer said to IMF ResRep Monroe on September 8 that he has not yet seen the decree and cannot comment. A meeting of Senior GOH officials has been called for the morning of September 8 to discuss the issue further. End Note).

[1](#)3. (C) The decree also establishes a commission of notables to reform the current fuel pricing formula. The commission has ten days to return its findings. Early indications are that the commission will be composed of: Catholic Church Cardinal Oscar Rodriguez (who is a moderate on the fuel pricing issue -- see paras 5-6, below); former Minister of Trade Juliette Handal (who led a vocal but unsuccessful attempt to reform the fuel pricing structure last year and who has openly called for nationalizing fuel imports); journalist Rossana Guevarra (linked to the Liberal Party); President of Banco Occidente Jorge Bueso Arias (who unsuccessfully ran for the Liberal presidential nomination in years past and has in recent days reportedly hosted a series of roundtable discussions on the need for a responsible fuel policy rather than demagogic proposals); Adolfo "Fito" Facusse, President of the Honduran Industrialists Association (ANDI) and vocal critic of current fuel policies; Irma Acosta de Fortin, university rector and former National Party candidate for Vice President; Arturo Corrales, leader of the Christian Democratic Party (coalition partner of the governing National Party) and businessman/pollster; Jose Maria Agurcia, President of COHEP, the umbrella private employers association; Juan Ferrera, President of the new Anti-Corruption Commission (formerly with COHEP); and Emilio

Larach, businessman.

14. (U) The second decree reduces the proposed expansion of targeted electricity subsidies for the poor. The program, called "Bono 80", is already included in the GOH budget, and the IMF had informally assented to expanding the program as long as fiscal impacts are minimal. Some of the funds that had been programmed for this expansion will be diverted instead to a fund that the Ministry of Finance will use to subsidize gasoline retailers, to allow them to sell at pre-Hurricane Katrina prices until the commission of notables renders its opinion on retail prices. That commission has been given 10 days to issue its report. In the same Congressional session, the President's proposal to require the private sector to pay salary bonuses of 1,000 to 2,000 lempiras (USD 53 to 106) per worker (ref C) was rejected and is now "dead" according to Honduran Private Sector Council (COHEP) Executive Director Benjamin Bogran, who participated in the all-night session. The third decree imposes a price freeze on the basket of basic consumer goods -- an action that is in violation of the IMF agreement and Honduran law unless it is agreed to with the private sector. Bogran is currently calling for consultations on this matter. (For a list of the affected goods -- the "canasta basica" -- see Ref E.)

Cardinal Takes a Stand for Fiscal Prudence

15. (U) Just before departing for Washington for a meeting with the Interamerican Development Bank, Cardinal Oscar Andres Rodriguez gave an extensive interview with leading Honduran daily El Heraldito, in which he called for sensible and prudent responses to the current fuel crisis gripping Honduras. (Note: This interview preceded the late-night Congressional action, on which he has not yet had an opportunity to comment. End Note.) The Cardinal said the current calls from leading presidential candidates and others to eliminate taxes on gasoline are "totally irrational" and "demagoguery" and said that adoption of such a policy would be a "total failure" for those who have been working for the economic benefit of the country. "Now that we have reached (the HIPC Completion Point), I feel it would be a great injustice, after all the sacrifices we have made, that for simple opportunism or for the benefit of a given political candidate we would lose the benefits of all our efforts."

16. (U) The Cardinal pointed out the risks to fiscal discipline and debt forgiveness posed by "precipitous" action on fuel taxes: "You have to understand, this debt forgiveness does not mean that money is flowing into Honduras, rather it represents state revenues that are not leaving the country to pay the external debt or debt service. Suppose that, for somewhat precipitous attitudes -- I don't wish to think it is the result of demagoguery, but perhaps is a bit precipitous -- let's say for example that in the Congress they remove the tax on gasoline. Then, immediately state income drops by one third and then where are your savings from debt forgiveness? There would be none, there would (instead) be a fiscal deficit. And how are we going to pay for this fiscal deficit? How are we going to continue paying doctors, and teachers, and others if there are no revenues? We cannot think we will get external financing, because no one will want to lend to a country in social chaos."

IMF Watchful and Wary

17. (C) International Monetary Fund Resident Representative Hunter Monroe told EconChief on September 7 that the Fund had been caught unawares by some of the GOH actions. The Fund had not agreed to the GOH proposal for bonus payments to workers to offset rising fuel costs (ref C.), nor to any GOH actions to offset fuel price increases. While the Fund was aware of GOH plans to increase targeted subsidies to poor electricity users, no final agreement had been reached before the GOH publicly announced its plan to reprogram some portion of those funds. Nevertheless, Monroe said these measures are "not likely to be an obstacle" for the Fund unless the GOH moves to explicitly control prices. (The impact of the Congressionally-approved price freeze, if it comes into effect, is unclear.) The IMF is privately calling for prudence, but is withholding judgment on the new Congressional decrees until it has had an opportunity to review them.

Taxi Strike Over

18. (U) Following a September 7 meeting between representatives of striking taxi drivers and Minister of Transportation and Public Works Jorge Carranza, taxi drivers have ended the two-day strike that paralyzed the city with road blockages (ref D). The drivers had been demanding fuel price reduction and/or fare increases following the sharp price increase of gasoline on September 2. The final details

of the settlement are not yet public, but the September 8 Congressional decision to reduce retail gasoline prices would appear to have met the strikers' principal demand. While teachers, students, and anti-globalists of the Popular Block still marched on September 8, road traffic in Tegucigalpa appears to have returned mostly to normal.

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